

Daniel Cancelmi

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1 Q. And the schedule begins with AGH,  
2 then eventually reached the DVOG hospitals and  
3 the Graduate hospitals, correct?

4 A. Yes.

5 Q. Is it the case that this schedule  
6 was prepared by or at the direction of Mr.  
7 Adamczak?

8 A. We put this together almost every  
9 month. And, you know, some of the information  
10 -- well, May of '97, I either knew where some  
11 of these things were or other people knew where  
12 some of the things were.

13 It was usually prepared each month  
14 to be provided to management. As far as the  
15 source of the numbers, some of the numbers came  
16 from individuals outside of the accounting  
17 department, just due to the nature of them.

18 Q. Is that Mr. Adamczak's handwriting  
19 at the top right-hand corner?

20 A. Yes.

21 Q. Is that a note that he wrote to  
22 you?

23 A. Yes.

24 Q. Are you able to read that for us,  
25 please?

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1 Q. He had come up with \$15.3 million  
2 versus the needed 25.1 million, right?

3 A. That's what it looks like.

4 Q. Who was Mr. Moyer?

5 A. He was the finance guy related to  
6 Allegheny Valley and Forbes.

7 Q. Do you know why Mr. Adamczak was  
8 hesitant to take Forbes or Allegheny Valley  
9 cushions?

10 A. I think he didn't want to  
11 necessarily utilize the Forbes and Allegheny  
12 Valley reserves unless it was necessary.  
13 Background on that is when AHERF was in a cash  
14 crunch, the Forbes and Allegheny Valley systems  
15 were -- it had a fair amount of cash  
16 availability.

17 And there was a lot of times, at  
18 least my understanding, there were discussions  
19 about taking some cash from the Forbes or  
20 Allegheny Valley organizations. But, you know,  
21 a lot of times Moyer, he just -- since he had  
22 worked for those organizations, he just wanted  
23 to keep Forbes and Allegheny Valley stuff to  
24 just on their books.

25 Q. So is it fair to say that Mr.

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1 A. Dan, I'm hesitant to take Forbes/AV  
2 cushions because we have to, I'm not sure what  
3 that word is.

4 Q. Account?

5 A. Account to Moyer. The pencil  
6 numbers are my suggestions which total  
7 15.3 million needed. 25.1 or -- you gather  
8 rather just for the bullets.

9 Q. Bite the bullet, maybe?

10 A. Bite. That could be. Bite the  
11 bullet. Take 10 million of Graduate reserves.

12 Q. When Mr. Adamczak here referred to  
13 the \$25.1 million that was needed, that's a  
14 reference to the \$25,083,000 bad debt reserve  
15 shortfall that you calculated in your June 20th  
16 memo, correct?

17 A. I don't know if -- it could be. It  
18 probably is.

19 Q. Do you believe that what this  
20 handwriting reflects is Mr. Adamczak going  
21 through the X file schedules, seeing whether he  
22 could identify \$25.1 million of reserves that  
23 would be available to cover the bad debt  
24 reserve shortfall to DVOG hospitals?

25 A. Yes.

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1 Adamczak thought he couldn't use any Forbes or  
2 Allegheny Valley reserves to transfer to DVOG  
3 because Mr. Moyer would have noticed that?

4 MR. TORBORG: Objection.

5 A. He probably wouldn't have wanted  
6 them transferred.

7 Q. He would have objected?

8 MR. TORBORG: Objection.

9 A. He would have wanted them for  
10 Forbes or Allegheny Valley.

11 Q. Was there no one at the Graduate  
12 hospitals who was in the position that Mr.  
13 Moyer had at Forbes and Allegheny Valley who  
14 could object to the use of Graduate reserves  
15 for DVOG?

16 MR. TORBORG: Objection.

17 A. Was there? Sure. There was Chuck  
18 Morrison.

19 Q. But he was also responsible for  
20 DVOG hospitals, right?

21 A. That's correct. Then there was  
22 also -- there was CFOs of the Graduate  
23 hospitals, and Matt Dowling, I think, was the  
24 CFO of all the Graduate hospitals.

25 Q. And Matt Dowling had been on Chuck

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1 These have the Bates numbers 4553, page 1,  
 2 page 2 and page 3.  
 3 A. Okay.  
 4 Q. Is that your handwriting on each of  
 5 these three pages?  
 6 A. Yes.  
 7 Q. And the first page is a summary  
 8 page, right?  
 9 A. Yes.  
 10 Q. And the next two pages are the  
 11 detail pages?  
 12 A. Yes.  
 13 Q. Is this the same typewritten  
 14 schedule, X file schedule, as of June 30th,  
 15 1996 and May 31st, 1997, as we saw Mr. Adamczak  
 16 marking up on the next two pages, DC4554, pages  
 17 1 to 2?  
 18 A. It looks like it.  
 19 Q. Is it the cases that on the two  
 20 pages with Bates numbers DC4 553, page 2 and  
 21 page 3, that you were going through the X file  
 22 schedule and identifying the reserves that you  
 23 then used in your July 3rd, 1997 memo, which is  
 24 immediately before it in Exhibit 1094?  
 25 A. Yes.

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1 identify and utilize for the transfer?  
 2 A. I think McConnell was involved in  
 3 this. I guess based on my understanding, I  
 4 guess talking to Al and Chuck Morrison. And  
 5 based on the issues, what some of the reserves  
 6 were for. And then how some of them weren't  
 7 necessarily needed anymore. We would go  
 8 through and identify which ones that would be  
 9 transferred.  
 10 Q. We meaning you and Al Adamczak?  
 11 A. Yes.  
 12 MR. RYAN: We need to pause for  
 13 just a moment for another tape change.  
 14 VIDEO TECHNICIAN: We are at the  
 15 end of tape two of the deposition of Daniel  
 16 Cancelmi on February 6, 2003. We will resume  
 17 with tape three. The time is 2:29.  
 18 (Brief recess.)  
 19 VIDEO TECHNICIAN: The time is  
 20 2:42. We are back on the record with tape  
 21 number three.  
 22 Q. We were looking, Mr. Cancelmi,  
 23 before we broke at Exhibit 1094, which included  
 24 a number of X file schedules, right?  
 25 A. Yes.

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1 Q. Is it fair to say that you built on  
 2 the \$15.3 million that Mr. Adamczak had already  
 3 identified in his review of the X file schedule  
 4 and found another \$10 million or so to get up  
 5 to the \$25 million total that you needed?  
 6 A. Yes.  
 7 Q. So was this process of identifying  
 8 the particular Graduate reserves to be  
 9 transferred to DVOG a collaborative one that  
 10 you and Mr. Adamczak were both involved in?  
 11 A. Yes. Yeah, I've testified to that  
 12 a long time.  
 13 Q. If you now look at the first  
 14 several pages of Exhibit 1094 with Bates  
 15 numbers DC4551, pages 1 to 3. Is this a copy  
 16 of the X file schedule as of June 30, 1996 and  
 17 May 31, 1997, revised to reflect the reserves  
 18 that you used for the transfer to DVOG  
 19 hospitals?  
 20 MR. TYCKO: Can you give those  
 21 Bates numbers one more time?  
 22 (Record repeated.)  
 23 A. Yes.  
 24 Q. Was anybody directing you and  
 25 Mr. Adamczak in terms of which reserves to

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1 Q. And the reserves that are utilized  
 2 here totaled 28 or \$9 million, of which  
 3 25 million was for the DVOG hospitals bad debt  
 4 reserve accounts, right?  
 5 A. Yes.  
 6 Q. And of that total, I think just  
 7 over 21 million came from Graduate, right?  
 8 A. Correct.  
 9 Q. And is that what you've referred to  
 10 previously in your testimony as the \$21 million  
 11 reserve transfer?  
 12 A. Yes.  
 13 Q. Was that transfer actually made on  
 14 or about July 3rd, 1997, the date of the memo?  
 15 A. I believe so.  
 16 Q. One question I meant to ask you  
 17 earlier. Relates to all the reserve transfers.  
 18 When we're talking about reserve transfers  
 19 here, we aren't talking about actually shipping  
 20 cash back and forth, are we?  
 21 A. No.  
 22 Q. These are simply bookkeeping  
 23 entries to establish reserves, right?  
 24 A. That's correct.  
 25 Q. Doesn't have anything to do with

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1 moving real money, cash, from one entity to  
 2 another, right?  
 3 A. That's correct.  
 4 Q. This packet we've marked as  
 5 Exhibit 1094 lays out the reserves used as part  
 6 of the \$21 million transfer and shows which  
 7 reserves that AHERF believed were excess  
 8 remained on the books even after that transfer,  
 9 right?  
 10 A. Correct.  
 11 Q. And you never sat down with Coopers  
 12 & Lybrand with the schedules that we have here  
 13 in Exhibit 1094 and explained to them what you  
 14 were doing with these reserve transfers, did  
 15 you?  
 16 A. This exact packet?  
 17 Q. Yes.  
 18 A. I don't know if I did or not.  
 19 Q. You can't recall ever sitting down  
 20 with anyone from Coopers & Lybrand to go over X  
 21 file schedules, can you?  
 22 A. The schedules themselves?  
 23 Q. Yes.  
 24 A. I don't know. I don't know about  
 25 that. I don't know if I ever did. Whether

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1 high-level management tool?  
 2 A. I mean they were used a lot. I  
 3 guess you could say they were useful.  
 4 Q. Let me mark, please, as  
 5 Exhibit 1095 a document with Bates numbers CLIS  
 6 190 to 201.  
 7 - - - - -  
 8 (Thereupon, Deposition Exhibit 1095  
 9 was marked for purposes of  
 10 identification.)  
 11 - - - - -  
 12 Q. Is Exhibit 1095, Mr. Cancelmi, a  
 13 summary of certain journal entries?  
 14 A. Yes.  
 15 Q. And the journal entries are  
 16 arranged by corporation number?  
 17 A. Yes.  
 18 Q. And these are the journal entries  
 19 that were recorded pursuant to your July 3rd,  
 20 1997 memo, right? And please feel free to take  
 21 any time you need to confirm that.  
 22 A. (Witness reviewing document.)  
 23 That's what it looks like, at least  
 24 on the first couple pages I looked at.  
 25 Q. Is it the case that the part of the

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1 someone else did, I don't know. Could have.  
 2 Maybe not.  
 3 But most of the items on there, you  
 4 could pull any one of them. Most of them are,  
 5 I think it's fair to say Coopers & Lybrand was  
 6 aware of what the issues were related to those  
 7 reserves.  
 8 But as far as exactly what packet  
 9 of information was discussed with them, I can't  
 10 say that like this exact packet was discussed  
 11 with them, no.  
 12 Q. Okay. And just to be sure that I'm  
 13 understanding you right, you don't recall  
 14 discussing any version of the X files with  
 15 Coopers & Lybrand, do you?  
 16 A. Specifically, no.  
 17 Q. And these X file schedules were  
 18 circulated monthly to certain members of AHERF  
 19 management?  
 20 A. Yes.  
 21 Q. They were viewed as a useful  
 22 high-level management tool; is that right?  
 23 A. I believe so. I guess you would  
 24 have to ask them.  
 25 Q. Did you view them as a useful

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1 journal entries with the ID number CTYE1 was an  
 2 entry to bad debt expense?  
 3 MR. TYCKO: Are you asking him  
 4 about all of the --  
 5 Q. Let me start with a particular one.  
 6 We'll go from there. Why don't we look at the  
 7 second page, Bates number 191. This refers to  
 8 journal entries for MCP Hospital, right?  
 9 A. Uh-huh.  
 10 Q. And do you see there there's a  
 11 debit to general ledger account number 8401100  
 12 in the third row?  
 13 A. Yes.  
 14 Q. And that is described in the right  
 15 column as bad debt Exp.?  
 16 A. Yes.  
 17 Q. That is a debit here in the amount  
 18 of \$1,191,000 to the MCP Hospital bad debt  
 19 expense account, right?  
 20 A. That's what it looks like, yes.  
 21 Q. And on the next page we've got  
 22 similarly a debit to the bad debt expense  
 23 account at Elkins Park Hospital, right?  
 24 A. Yes.  
 25 Q. Also I'm now talking about journal

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1 Exhibit 1097 a document with Bates numbers  
 2 DC0896, pages 64 through 83.  
 3 -----  
 4 (Thereupon, Deposition Exhibit 1097  
 5 was marked for purposes of  
 6 identification.)  
 7 -----  
 8 Q. Do you recognize Exhibit 1097, Mr.  
 9 Cancelmi?  
 10 A. Yeah, I think so.  
 11 Q. What is it?  
 12 A. There's a number of documents in  
 13 here. One is a memo from Al to McConnell, just  
 14 summarizing some financial numbers for June.  
 15 The next page has some patient day and volume  
 16 admission information. Then some summary of  
 17 the explanation of some of the variances.  
 18 That's 67 to 92.  
 19 Q. Whose handwriting is that on 67 to  
 20 92?  
 21 A. Al Adamczak's. He's, I guess,  
 22 summarizing the data relating to DVOG. Then  
 23 69, 70, just financial statement information  
 24 related to the Delaware Valley or Eastern  
 25 Region stuff.

1 think these were one of the first set of  
 2 June '97 statements. And I think it was a  
 3 consistent issue that there was write-offs that  
 4 occurred.  
 5 Q. The variance here as shown in  
 6 Mr. Adamczak's memo is \$15.7 million, right?  
 7 A. Yes.  
 8 Q. And then he identifies on the next  
 9 page volume variance of \$8.2 million, right?  
 10 A. Okay. Yes.  
 11 Q. Top half of that page?  
 12 A. Yes.  
 13 Q. And then the remainder, the  
 14 variance of \$7.5 million he assigns to rate  
 15 variance, right?  
 16 A. Correct.  
 17 Q. That \$7.5 million figure, as you  
 18 understand it, is just the plug between the  
 19 overall \$15.7 million variance and the  
 20 \$8.2 million volume variance that you  
 21 calculated, right?  
 22 A. Yeah, I mean and there was -- he  
 23 goes through and, you know, identifies -- when  
 24 you have a variance in revenue, it's either  
 25 rate or volume. So, you know, whatever one you

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1 Q. All right. If I could focus,  
 2 please, on the first part of the fax, which is  
 3 the July 18th, 1997 memo from Mr. Adamczak to  
 4 Mr. McConnell.  
 5 There are figures there for actual  
 6 month of June patient service revenue at the  
 7 five DVOG hospitals, correct?  
 8 A. Yes.  
 9 Q. And those figures correspond to the  
 10 June 1997 patient revenue figures shown in  
 11 Exhibit 1096, the statements faxed to Mr.  
 12 McConnell on July 16th, don't they?  
 13 A. I don't know. I'll verify that.  
 14 Q. Well, we've got 12.4 million at MCP  
 15 Hospital, and Exhibit 1096 it's  
 16 \$12,471,000 million?  
 17 A. That's what it looks like, yeah.  
 18 Q. Mr. Adamczak identifies in the  
 19 July 18th, 1997 memo that the actual results  
 20 for June in terms of DVOG inpatient service  
 21 revenue were significantly below budget, right?  
 22 A. Correct.  
 23 Q. Do you remember that the June 1997  
 24 results as initially recorded were very bad?  
 25 A. Yeah, I mean from, you know, I

1 start with, the difference, you know, you  
 2 assume is the other one.  
 3 So what he's saying is, here, this  
 4 is the other difference, you know, I guess  
 5 estimated to be the rate variance, and then  
 6 these are some of the unusual items that  
 7 happened during that month.  
 8 Q. If you could turn, please, to the  
 9 page with Bates number 70.  
 10 A. Yes.  
 11 Q. Do you see it's headed AHERF  
 12 Eastern Region combined statement of revenue  
 13 and expenses for the year ended June 30th,  
 14 1997?  
 15 A. Correct.  
 16 Q. And this is a printout of the DVOG  
 17 income statement for fiscal year 1997 in the  
 18 format used for AHERF's monthly internal  
 19 financial statements for the results as they  
 20 were initially reported, right?  
 21 A. I guess. I don't know the -- I  
 22 assume, since he's attaching it to this memo,  
 23 there's not a date on it, but, yeah, the next  
 24 page, 718. Okay, yes.  
 25 Q. You're looking there at the print

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1 date there, the bottom right corner of page 71,  
 2 right?  
 3 A. Right.  
 4 Q. Where it says July 18th, '97?  
 5 A. Right.  
 6 Q. Am I reading this right that the  
 7 way the results were initially reported, DVOG  
 8 had a \$944,000 loss for fiscal year 1997?  
 9 A. Yes.  
 10 Q. And you're aware, aren't you, that  
 11 in the final financial information for DVOG,  
 12 there's a net income reported of approximately  
 13 \$20 million, right?  
 14 A. Is that what it is? You would have  
 15 to show me a statement.  
 16 Q. Why don't we dig that out.  
 17 Let me hand you, Mr. Cancelmi,  
 18 what's previously been marked as Exhibit 58.  
 19 Is this a copy of AHERF's 1997 audited  
 20 financial statements?  
 21 A. Yes.  
 22 Q. And attached to the audited  
 23 financial statements for consolidated AHERF are  
 24 certain consolidating schedules, right?  
 25 A. Yes.

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1 Mr. McConnell about that?  
 2 A. I don't believe so. I probably  
 3 would have been talking to Al about it.  
 4 Q. Did Mr. Adamczak tell you that the  
 5 adjustments were being made at Mr. McConnell's  
 6 direction?  
 7 A. I assume. I mean that's how the  
 8 process normally worked.  
 9 Q. Let me hand you, Mr. Cancelmi,  
 10 what's previously been marked as Exhibit 49.  
 11 Do you recognize the handwriting on the second  
 12 page of this exhibit?  
 13 A. Yes.  
 14 Q. Whose is it?  
 15 A. Looks like mine.  
 16 Q. And on this page, do you record the  
 17 original unadjusted --  
 18 A. Some of them aren't mine, but most  
 19 of them are.  
 20 Q. Okay. Is there a way -- there  
 21 seems to be darker numbers and lighter numbers.  
 22 Can you identify --  
 23 A. No, I can't do it based on that.  
 24 Looks like the Pittsburgh stuff. Doesn't look  
 25 like that's my writing.

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1 Q. And specifically on page 28 of the  
 2 original document, the Bates number ending in  
 3 922, there's consolidating income statement  
 4 information for AHERF's various affiliates for  
 5 the year ended June 30th, 1997, right?  
 6 A. Correct.  
 7 Q. And for DVOG, the net income is  
 8 shown there as \$23,701,000, right?  
 9 A. Correct.  
 10 Q. And is the difference between the  
 11 income shown on the consolidating schedules  
 12 attached to the audited financial statements  
 13 and the net loss, as initially reported, that  
 14 we saw in Exhibit 1097, a series of adjustments  
 15 that were made to the June 1997 financial  
 16 statements?  
 17 A. Yes.  
 18 MR. TORBORG: Objection.  
 19 Q. Were those adjustments made --  
 20 well, strike that.  
 21 At whose direction were those  
 22 adjustments made?  
 23 A. That was, my understanding,  
 24 McConnell.  
 25 Q. Did you speak directly to

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1 Q. You're referring to the first row  
 2 by AGH and then the row by Forbes and AOC?  
 3 A. Right. And then Delaware Valley  
 4 stuff looks like mine. Most of the Graduate  
 5 stuff, that looks like mine.  
 6 Q. So I'll just focus on the DVOG and  
 7 Graduate information. That's your handwriting  
 8 mainly there; is that right?  
 9 A. That's what it looks like, yes.  
 10 Q. On this schedule are you writing  
 11 down the unadjusted net income or loss for  
 12 fiscal year 1997, and then adding certain  
 13 adjustments to increase income in arriving at  
 14 an adjusted fiscal year 1997 income?  
 15 A. Yes.  
 16 Q. Let me hand you what's previously  
 17 been marked as Exhibit 51. Is this your  
 18 handwriting on Exhibit 51?  
 19 A. Yes, except for I think the top to  
 20 the right. Or going down, like that 6/97  
 21 column going down, that's Chuck Lisman's  
 22 writing.  
 23 Q. But the hospitals, the indications  
 24 inpatient or outpatient, and the dollar amounts  
 25 are your handwriting?

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1 Q. But the remainder is transferred to  
2 DVOG and taken into income there, right?  
3 A. That's correct.  
4 Q. Who went through this X file  
5 schedule marked as Exhibit 45 to identify the  
6 reserves at the Graduate entities that could be  
7 taken and transferred to DVOG?  
8 A. Who went through it?  
9 Q. Yeah. Who sat down with a version  
10 of this X file schedule that was unadjusted as  
11 of June 30th, 1997 and determined which  
12 reserves to take from the Graduate entities and  
13 transfer to DVOG?  
14 A. I think we talked about this  
15 before. There was adjustments that management  
16 wanted made to the DVOG financial statements.  
17 And then based on whatever the  
18 issue was, if there was a reserve that was  
19 available, you know, Al or myself would go  
20 through, based on information we knew about or  
21 heard about, and, you know, like the PFMA, we  
22 would receive correspondence from, you know, a  
23 number of different areas, you know, that that  
24 was available, et cetera.  
25 And based on that, you know, the

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1 that we've marked as Exhibit 45?  
2 MR. TORBORG: Objection.  
3 A. I believe so. I don't know exactly  
4 every single schedule where it went. It was my  
5 understanding that after our department would  
6 prepare it, it would go to -- Steve was there  
7 at the time, and I thought he distributed it to  
8 McConnell or Morrison or Dionisio. Or when Al  
9 was there at the time, you know, he sent it to  
10 McConnell or Morrison or Dionisio.  
11 And I thought I had an  
12 understanding it went to Abdelhak, but I can't  
13 say for sure. I never gave it to him.  
14 Q. Now, we talked a little bit earlier  
15 when we were looking at Exhibit 1095 about how  
16 at the same time that the journal entries were  
17 made for the \$21 million transfer to DVOG bad  
18 debt allowance accounts, an additional  
19 \$10 million in liabilities were established on  
20 the books of Graduate hospitals in the accounts  
21 payable liability account, right?  
22 A. Yes.  
23 Q. And does this exhibit now,  
24 Exhibit 45, show substantial amounts being  
25 transferred out of those general AP reserve

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1 determination was made that those would be the  
2 reserves that would be used.  
3 Q. All right. So that's something  
4 that you and Mr. Adamczak did?  
5 A. Yeah. I mean it's similar to the  
6 20, I think the 21, whatever that schedule was  
7 you showed me a while back where he had  
8 identified some of them. He would ask me to  
9 identify some of them. You know, and maybe  
10 other people identified some of them.  
11 But, you know, this was the primary  
12 schedule that had been distributed to  
13 management. And, you know, they were aware of  
14 the issues and what these matters related to.  
15 So this was the basis, so to speak, of where to  
16 look for the reserves.  
17 Q. All right. When you say  
18 management, you're referring here, at least in  
19 the context of DVOG and Graduate, you're  
20 referring to Mr. McConnell and Mr. Morrison?  
21 A. Yes. This was distributed to other  
22 people, though, within Allegheny is my  
23 understanding.  
24 Q. By this, you're referring now to  
25 the X file schedule showing the reserves taken

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1 accounts at Graduate, Mount Sinai and Rancocas  
2 Hospitals?  
3 A. Yeah, I think so. There's a line  
4 for general AP reserves.  
5 Q. And so that's what you were  
6 testifying about earlier when you said those  
7 reserves were established basically for  
8 transfer to DVOG, right?  
9 A. They were established for, you  
10 know, AP type issues and then ultimately  
11 transferred to DVOG for accounts receivable  
12 issues, yes.  
13 Q. When you say ultimately, I mean  
14 it's a matter of days or weeks after they were  
15 established, right?  
16 A. Yeah. Although, I think they were  
17 being evaluated before that. I can't say  
18 exactly. I think that was an issue that was  
19 out on the table, at least for some length of  
20 time. But I don't remember exactly when.  
21 Q. Now, we've just looked at a whole  
22 series of exhibits that reflect the adjustments  
23 made to the June 1997 DVOG financial  
24 statements, right?  
25 A. Correct.

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1 Q. Adjustments that included the  
2 greater part of the \$28 million reserve  
3 transfer from Graduate to the DVOG contractual  
4 allowance accounts?

5 A. Correct.

6 Q. And you don't recall, do you,  
7 providing any of these documents relating to  
8 that \$28 million reserve transfer to Coopers &  
9 Lybrand?

10 A. I don't know about any one of these  
11 particular documents. One of them may. I  
12 don't know exactly. I mean we would have to go  
13 through each one. I couldn't say a hundred  
14 percent for sure whether -- which ones were.  
15 But like I said before, certain of the  
16 components I thought had been discussed with  
17 Coopers & Lybrand, as far as reserves, what  
18 they related to and that they had been  
19 transferred.

20 Q. Let me just ask you a little bit  
21 more about that. I think you testified earlier  
22 that, unlike the \$50 million, the \$21 million  
23 reserve transfer and the \$28 million reserve  
24 transfer weren't being talked about inside  
25 AHERF in those terms at the time, right?

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1 have referred to them here in your testimony,  
2 right?

3 A. That's right.

4 Q. Let me mark, please, as  
5 Exhibit 1100 a document with Bates numbers  
6 DC8295, pages 1 to 18.

7 - - - - -  
8 (Thereupon, Deposition Exhibit 1100  
9 was marked for purposes of  
10 identification.)

11 - - - - -  
12 Q. Do you recognize Exhibit 1100, Mr.  
13 Cancelmi?

14 A. Yes.

15 Q. What is it?

16 A. It's a -- I've testified about this  
17 a lot of times before. It's a summary of  
18 various financial results for fiscal '97.  
19 Summarizes various reserves that were used in  
20 fiscal '97.

21 I think it talks about fiscal '98  
22 information in terms of forecasting for '98  
23 data. Talks about some fiscal '96 information.  
24 Some of the various reserves that were used and  
25 that type of stuff.

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1 A. That's correct.

2 Q. They weren't being conceived as a  
3 whole, right?

4 A. Correct.

5 Q. So you'd be pretty confident that  
6 during the 1997 audit, you weren't really  
7 talking to anybody, either at AHERF or at  
8 Coopers & Lybrand, about the \$21 million  
9 reserve transfer?

10 A. That's correct.

11 MR. TORBORG: Objection.

12 A. They just weren't referred to in  
13 that manner at that point.

14 Q. All right. And you wouldn't have  
15 been talking to anybody either at AHERF or  
16 Coopers & Lybrand about the \$28 million reserve  
17 transfer?

18 A. In that manner, no.

19 MR. TORBORG: Objection.

20 A. But there was adjustments that  
21 obviously people knew about these adjustments  
22 that had been made. It's just they hadn't  
23 necessarily been summarized in this 21 and 28  
24 category, the way you're referring to them.

25 Q. And the 21 and 28 is also how you

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1 Q. Is that your handwriting on the top  
2 of the first page, Exhibit 1100?

3 A. Yes.

4 Q. Could you read that for us, please?

5 A. Info prepared by AI and provided to  
6 DWMc, CPM and SSA.

7 Q. Those there initials for David  
8 McConnell, Chuck Morrison and Sherif Abdelhak?

9 A. Yes.

10 Q. How do you know that this  
11 information was provided to those three  
12 individuals?

13 A. I thought, I remember AI telling me  
14 that. There would have been others, I think,  
15 here, too. Because at the time AI was putting  
16 this together and I was helping AI put this  
17 together, I believe my memory, if it's correct,  
18 was this data, Chuck Morrison and Dr. Kaye were  
19 involved in terms of analyzing the Philadelphia  
20 numbers.

21 So these documents could have gone  
22 to Dr. Kaye. Couldn't say a hundred percent  
23 for certain. But I thought AI told me that  
24 these documents at least had gone to McConnell,  
25 Morrison and Abdelhak. That's what I recall at

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1 schedule which puts them all in one place, on  
 2 one sheet of paper, right?  
 3 A. Yeah.  
 4 Q. And a total surprise to you?  
 5 A. I guess so, yeah. I'm not sure  
 6 exactly what I thought at the time.  
 7 Q. You don't recall providing Coopers  
 8 & Lybrand with any of these schedules about the  
 9 use of cushions in fiscal year 1997, do you?  
 10 A. Specifically, I can't say that I  
 11 did. I don't know if anyone else did. They  
 12 may have. I don't know. I don't remember  
 13 specifically. But, again, these, I know these  
 14 were filed in the front of my monthly financial  
 15 year-end binder, so, you know, it's not like  
 16 data was hidden or anything.  
 17 Q. This is certainly information that  
 18 sheds light on the quality of AHERF's earnings  
 19 for fiscal 1997, doesn't it?  
 20 A. Yeah.  
 21 Q. And all this use of cushions is  
 22 summarized on just one page?  
 23 A. It's summarized on a lot of  
 24 different pages in a lot of different manners,  
 25 but --

1 The deferred HSI revenue, that  
 2 issue had been discussed. Medicare recapture  
 3 had been discussed with them. And the other  
 4 column, the 6 and a half, I guess I would have  
 5 to see what was in those components.  
 6 MR. RYAN: I'll move to strike that  
 7 answer as nonresponsive.  
 8 MR. TORBORG: Objection.  
 9 Q. The question I'm trying to ask more  
 10 specifically is: If this schedule, when you  
 11 saw all this use of cushions on one sheet of  
 12 paper, if this was somewhat new and surprising  
 13 to you to see this all put together like this,  
 14 wouldn't it have been a good idea to sit down  
 15 with someone from Coopers & Lybrand and show  
 16 them this exact schedule, say, look here?  
 17 A. Well, like I just went through and  
 18 explained, the issues that were outlined on  
 19 here, I believed the majority of them had  
 20 already been discussed with Coopers & Lybrand.  
 21 And I agree, these numbers add up  
 22 certain adjustments, but then there's a lot of  
 23 other transactions that take place in an  
 24 organization throughout the course of the year.  
 25 And you could pick out five or six of those and

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1 Q. And you didn't sit down with  
 2 Coopers & Lybrand, as best as you can recall,  
 3 and say, look, here's one sheet of paper that  
 4 shows \$138 million in use of cushions in fiscal  
 5 year 1997, I just thought this is something you  
 6 should know?  
 7 A. No. Well, I was -- it was my  
 8 understanding they were aware of, you know, the  
 9 issues that are wrong here. I don't think  
 10 there's anything in particular that -- maybe  
 11 not every single component, but the bad debt  
 12 expense, I mean if you just go across the  
 13 columns, the bad debt expense, I believe they  
 14 were aware of that.  
 15 CRA settlements, I guess that  
 16 wasn't my area. The Graduate cushions, I can't  
 17 say a hundred percent every single one of them,  
 18 but certainly a good bit of those of my  
 19 understanding Coopers was aware of.  
 20 Temporarily restricted funds, that  
 21 was at AHERF. The lion's share of that  
 22 adjustment I believe came from Mr. Buettner  
 23 related to U.S. Healthcare risk contract. So,  
 24 again, another issue that I would have just  
 25 assumed they were aware of.

1 put them on a schedule. You could put down and  
 2 say, well, we picked up new business in, you  
 3 know, Montgomery County related to these six  
 4 new physician practices.  
 5 But, you know, whether you do that  
 6 with every single thing, we're focusing on six  
 7 items here, six or seven items, of which most  
 8 of these, based on my understanding, Coopers &  
 9 Lybrand was aware of them.  
 10 There's probably hundreds, if not  
 11 thousands, of other transactions that take  
 12 place during the course of a year that you  
 13 don't necessarily sit down and summarize and  
 14 sit down and say, hey, you know, what about  
 15 this?  
 16 So, yeah, I mean it's a number that  
 17 has, you know, some big numbers on it. But  
 18 like I said, a bad debt expense issue by and  
 19 large was discussed. The CRA settlements,  
 20 different reimbursement area. You could talk  
 21 to the folks in there. But Coopers & Lybrand  
 22 audited the cost report accounts.  
 23 Graduate cushions, majority of  
 24 those had been discussed. Temporarily  
 25 restricted funds, majority of that was a direct

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1 entry, my understanding, from Bill Buettner  
 2 related to U.S. Healthcare risk contract.  
 3 Deferred HSI revenue, we discussed that that  
 4 had been discussed. Medicare recapture was  
 5 analyzed also at Coopers & Lybrand.  
 6 Q. I believe you just said that in  
 7 AHERF there were hundreds of thousands of  
 8 transactions that are occurring in the course  
 9 of a given fiscal year, right?  
 10 A. That's correct.  
 11 Q. AHERF was a large organization,  
 12 with lots of individual components, right?  
 13 A. That's correct.  
 14 Q. Lots of things going on in the  
 15 modern healthcare organization in terms of  
 16 reimbursement and different types of payors and  
 17 investments and so forth, right?  
 18 A. Yes.  
 19 Q. What we see on page 5 of  
 20 Exhibit 1100 is a road map, which is some of  
 21 the more significant transactions out of the  
 22 hundreds of thousands of transactions that  
 23 occurred at AHERF in the course of fiscal year  
 24 1997, right?  
 25 A. That's correct.

1 A. Yes.  
 2 Q. 766 to 770?  
 3 A. Yes. And the previous schedules, I  
 4 mean we may have helped out, provided data. I  
 5 can't say for certain. I mean I don't know  
 6 what that last two pages -- oh, I'm copied on,  
 7 I guess I did.  
 8 Q. You're referring there to the  
 9 September 23rd, 1997 memo from Mr. Adamczak to  
 10 Mr. McConnell about DVOG outpatient revenue?  
 11 A. Right.  
 12 Q. Do you see on the fax cover sheet  
 13 Mr. Adamczak writes, attached are three  
 14 analysis given to Harry this morning, 10 a.m.?  
 15 A. Yes.  
 16 Q. Do you know who Harry is?  
 17 A. No.  
 18 Q. Do you know whether that's Harry  
 19 Edleman?  
 20 A. I don't know.  
 21 Q. Was --  
 22 A. I heard the name Edleman. I'm not  
 23 sure I remember what his first name was.  
 24 Q. Was there anyone who worked in  
 25 finance at AHERF named Harry?

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1 MR. TORBORG: Objection.  
 2 Q. But it's a road map you didn't  
 3 provide to Coopers & Lybrand, right?  
 4 A. I don't remember specifically  
 5 providing. Whether someone else did, very well  
 6 could be.  
 7 Q. Let me mark, please, as  
 8 Exhibit 1101 a document with Bates numbers  
 9 DBR-AA 8757 to 72.  
 10 - - - - -  
 11 (Thereupon, Deposition Exhibit 1101  
 12 was marked for purposes of  
 13 identification.)  
 14 - - - - -  
 15 Q. Now, Exhibit 1101 appears to be a  
 16 fax from Al Adamczak to Sherif Abdelhak. Do  
 17 you see that?  
 18 A. Yes.  
 19 Q. Are you familiar with this fax or  
 20 with any of its contents, Mr. Cancelmi?  
 21 A. I may have seen this before. I  
 22 can't say for certain. Although, schedules on  
 23 8766, there's schedules that we've prepared.  
 24 Q. These are schedules that Robin  
 25 Schaffer prepared?

1 A. I'm sure there was someone. Not  
 2 that I recall offhand, to be honest with you.  
 3 MR. TYCKO: Can we take a short  
 4 break?  
 5 MR. RYAN: Sure, that would be  
 6 great.  
 7 VIDEO TECHNICIAN: The time is  
 8 3:46. We are going off the record.  
 9 (Brief recess.)  
 10 VIDEO TECHNICIAN: The time is  
 11 4:04. We are back on the record.  
 12 Q. Let me mark, please, as  
 13 Exhibit 1102 a document with Bates numbers  
 14 DC6130, pages 1 to 3.  
 15 - - - - -  
 16 (Thereupon, Deposition Exhibit 1102  
 17 was marked for purposes of  
 18 identification.)  
 19 - - - - -  
 20 Q. Do you recognize Exhibit 1102, Mr.  
 21 Cancelmi?  
 22 A. Yes.  
 23 Q. Is this a Graduate System  
 24 restructuring schedule prepared by Mr. Lisman  
 25 and provided to you?

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1 the April 14th, 1997 memo, which we had marked  
2 as Exhibit 8.

3 A. I'm sorry, Exhibit 8?

4 Q. Yes. This was one of the earlier  
5 exhibits we used today.

6 A. Got it.

7 Q. If you turn, please, to page 2 of  
8 Exhibit 8, on the bottom under the heading,  
9 allocation of reserves, the schedule shows  
10 there that \$10 million of the initial  
11 \$50 million was allocated to Hahnemann  
12 Hospital, right?

13 A. Yes.

14 Q. And that's consistent with  
15 Hahnemann's portion of the \$50 million reserve  
16 transfer being adjusted on the increase or  
17 decrease in cash flow changes in receivables  
18 line on the combining statement of cash flows  
19 for the year ended June 30th, 1997, right?

20 A. I'll take your word about the math.

21 Q. Why don't we just look at one more.

22 Why don't we take Bucks County Hospital. Bucks  
23 got allocated \$7 million of the initial  
24 \$50 million, right?

25 A. Yes.

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1 A. Roughly, yes.

2 Q. And if we turn to page 38 in  
3 Exhibit 58, the combining statement of cash  
4 flow, we instead see a decrease of \$120,000 on  
5 the combining statement of cash flows for Bucks  
6 County Hospital for the decrease in cash from  
7 changes in receivables, right?

8 A. Yes.

9 Q. And the difference between the  
10 amount that we would expect to see by comparing  
11 the combining balance sheets as of the two  
12 dates and the amount that we actually see in  
13 the combining statement of cash flows is  
14 exactly \$7 million, right?

15 A. I assume the math works, yes.

16 Pretty close.

17 Q. And that's Bucks County's  
18 \$7 million portion of the \$50 million initial  
19 reserve transfer, right?

20 A. That's probably the majority of it.

21 You could have other non cash items in there.

22 Q. I will represent to you I've gone  
23 through for each of the five DVOG hospitals and  
24 done the comparison --

25 A. Right.

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1 Q. So if we start here on page 23 of  
2 Exhibit 74, the combining balance sheet as of  
3 June 30th, 1996, Bucks has \$17,12,000 in net  
4 patient accounts receivable, right?

5 A. Uh-huh. Yes.

6 Q. An additional 43,000 in grants and  
7 other receivables, right?

8 A. Yes.

9 Q. For a total of \$17,055,000?

10 A. Yes.

11 Q. And if we turn to page 35 in  
12 Exhibit 59, the 1997 audited financial  
13 statements, we see that Bucks County Hospital  
14 is shown as having \$10,158,000 in patient net  
15 accounts receivable at June 30th, 1997, right?

16 A. Right.

17 Q. And an additional 17,000 in grants  
18 and other receivables, right?

19 A. Right.

20 Q. For a total of \$10,175,000, right?

21 A. Correct.

22 Q. And so if we take the \$17,055,000  
23 from June 30th, 1996 and subtract the  
24 \$10,175,000 from June 30th, 1997, we would  
25 expect to see a decrease of \$6,880,000, right?

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1 Q. -- we've done. And in each case,  
2 the variance between what you would get by  
3 comparing the balance sheet amounts as of the  
4 two dates and the amount that, in fact, is  
5 shown on the cash flow statement, corresponds  
6 to the dollar to the -- to that hospital's  
7 portion of the initial \$50 million reserve  
8 transfer.

9 A. That makes sense.

10 Q. And that's consistent with the  
11 schedule you prepared in Exhibit 1103, which  
12 was a monthly cash flow analysis through  
13 May 31st, 1997, where you had similarly made  
14 this adjustment for the \$50 million non cash  
15 reserve transfer, right?

16 A. Yes.

17 Q. Now, by the time the books were  
18 finally closed on, or as of June 30th, 1997,  
19 there had been an additional \$21 million non  
20 cash reserve transfer from the Graduate  
21 hospitals to the DVOG hospitals, right?

22 A. Correct.

23 Q. And the same logic that led you to  
24 deduct the \$50 million non cash reserve  
25 transfer from the change in accounts receivable

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Daniel Cancelmi

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1 should also have led you to deduct the  
 2 \$21 million, correct?  
 3 A. I don't think we did that.  
 4 Q. I know you didn't do that. I'm  
 5 asking whether the logic that led you to deduct  
 6 the \$50 million should have also led you to  
 7 deduct the non cash \$21 million reserve  
 8 transfer into the same DVOG bad debt allowance  
 9 account?  
 10 A. I'm not sure if we focused on that  
 11 or not. Although, now that I think about it,  
 12 the 50 was transferred to DVOG before Graduate  
 13 hospitals entered the AHERF system; whereas,  
 14 the other reserves were transferred after they  
 15 came into the AHERF system.  
 16 When you do a cash flow statement,  
 17 when you have an acquisition, when you're  
 18 fluxing balances, you exclude accounts that  
 19 were acquired as part of an acquisition.  
 20 So say you acquire a hospital that  
 21 has \$10 million receivables and your  
 22 receivables go up 15 million. 10 of the 15  
 23 relates to acquisition, so you sort of strip it  
 24 out.  
 25 So maybe the logic was that since

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1 preparing a cash flow statement for an  
 2 organization that's had acquisitions during the  
 3 fiscal year at issue, there's a row on the cash  
 4 flow statement for the changes related to  
 5 business combinations, right?  
 6 A. That's part of it. You have to  
 7 strip it out of each line, too.  
 8 Q. You have to strip it out of each  
 9 line and put it into its own separate line,  
 10 right?  
 11 A. Yes.  
 12 Q. Now, by contrast, if we look back  
 13 at the DVOG combining statement of cash flows  
 14 we were on before, on page 38, same exhibit,  
 15 there weren't any significant acquisitions or  
 16 dispositions within DVOG during fiscal year  
 17 1997, were there?  
 18 A. Within DVOG, no.  
 19 Q. And that's why when we look here on  
 20 the statement of cash flows from operating  
 21 activities, there's activity in the net assets  
 22 balances related to business combinations only  
 23 at Allegheny University Health and Sciences,  
 24 right?  
 25 A. Right.

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1 they were already in the AHERF system when  
 2 those reserves were transferred, you wouldn't  
 3 pull that effect out; whereas, the 50 was  
 4 transferred before the Graduate hospitals came  
 5 into the AHERF system.  
 6 Q. To follow up on something you just  
 7 said, let me ask you to turn, if you would, in  
 8 Exhibit 58, the 1997 audited financial  
 9 statements, to the consolidated statement of  
 10 cash flows on page 5.  
 11 A. Yes.  
 12 Q. All right. This is the statement  
 13 of cash flows for the consolidated AHERF  
 14 organization, right?  
 15 A. Yes.  
 16 Q. Do you see there, I think it's the  
 17 fifth item down, one of the adjustments to  
 18 reconcile the changes in net assets to net cash  
 19 provided by operating activities is net assets  
 20 balances related to business combinations.  
 21 A. Yes.  
 22 Q. In the amount of \$42,669,000?  
 23 A. Yes.  
 24 Q. Now, that's an entry for what you  
 25 were talking about just now, that when you're

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1 Q. And that's a reflection of the  
 2 transfer of ASRI into AUHS during fiscal year  
 3 1997, right?  
 4 A. ASRI Singer, yes.  
 5 Q. At the DVOG hospitals that I'm  
 6 trying to focus on now, there's no entry,  
 7 there's just a dash, right?  
 8 A. Right.  
 9 Q. So in preparing the DVOG combining  
 10 statement of cash flows, at least as it relates  
 11 to the DVOG hospitals, because there's no  
 12 acquisition or disposition activity at those  
 13 hospitals during the fiscal year, the date of  
 14 entry of the Graduate hospitals into the AHERF  
 15 system isn't really relevant, is it?  
 16 I mean that would only be relevant  
 17 to a Centennial or Graduate statement of cash  
 18 flows.  
 19 A. I can't remember if we analyzed  
 20 this or not. The 50 were pulled out, I think,  
 21 because those reserves were transferred before  
 22 the Graduate hospitals came in the AHERF  
 23 system.  
 24 I'm not sure that the other  
 25 reserves that were transferred were evaluated,

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Daniel Cancelmi

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1 or if they were evaluated, it was because there  
2 was no adjustment made for those, maybe because  
3 those reserves were already in the AHERF's  
4 consolidated financial statements as of  
5 May 1st, and they were transferred subsequent  
6 to that.

7 And, therefore, on a consolidated  
8 basis, it didn't impact cash flow, so it all  
9 netted out, because they were all being, I  
10 guess, transferred between categories within  
11 the cash flow from operations.

12 So cash flow from operations  
13 wouldn't have been impacted by that, because it  
14 was all transfers subsequent to the hospitals  
15 being in AHERF. And all the transfers were  
16 between accounts within the operating cash flow  
17 section of the cash flow statement.

18 But the 50 million reduced  
19 receivables on the consolidated financial  
20 statements, because those reserves came into  
21 the system before the Graduate hospitals did.  
22 So that you would have to make a cash flow  
23 statement adjustment for that. Non cash  
24 adjustment for that.

25 Q. Is it correct, though, that with

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1 have -- let's say you wrote off a hundred  
2 dollars of accounts. The top of the statement  
3 would have had a big bracket, negative a  
4 hundred. Reserves get transferred over, say a  
5 hundred dollars of reserves. Your receivables  
6 go down. It's a source of cash. Negative  
7 hundred, positive hundred, nets to zero.

8 Which would be the case, because  
9 you didn't receive any cash for those  
10 transactions. So I don't believe that method  
11 of that logic you're proposing would be right.  
12 But I have to think about it some more and make  
13 sure that's right.

14 That's my knee jerk reaction to it.  
15 Because when those receivables went down, cash  
16 didn't come in the door. So I guess now the  
17 more I think about it even more, if we had a  
18 non cash adjustment there, it would have made  
19 the statement of cash flows incorrect. That's  
20 my knee jerk reaction.

21 Q. In any event, you agree that in the  
22 combining statement of cash flows for DVOG for  
23 the year ending June 30th, 1997, there was a  
24 non cash adjustment for the \$50 million reserve  
25 transfer and there was not one for \$21 million

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1 respect to the DVOG combining statement of cash  
2 flows, the \$50 million reserve transfer from  
3 Graduate and the \$21 million reserve transfer  
4 from Graduate had identical effects on the  
5 change in accounts receivable at the DVOG  
6 hospitals?

7 A. I don't know. I'm trying to think.  
8 You had adjustments, your P and L was reduced.  
9 No, because your P and L would have had a  
10 credit in it or an expense for the write-offs  
11 of the account. And then the reserve gets  
12 transferred over, which results in a reduction  
13 of receivables, which is a source of cash,  
14 which offsets the use of cash, because the  
15 write-off of the accounts is in the P and L, so  
16 it nets out to zero, which is a zero cash  
17 impact on cash flow from operations, which it  
18 was, because these were non cash write-offs.

19 So, no, I have to think about it a  
20 little bit more, and maybe you guys should  
21 think about that a little more, but I don't  
22 think so. Because when the accounts were  
23 written off, they went to the P and L.

24 So if you had no other transactions  
25 during the course of the year, you would

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1 of reserve transfer, right?

2 A. That's correct, but I think, like I  
3 said, my knee jerk reaction, I think that's  
4 right because what I said. The accounts that  
5 were part of the 21 to 28 went through P and L.

6 And go back to my example. If you  
7 write off a hundred dollars of accounts, you  
8 start off at the top with negative a hundred.  
9 And if your receivables went down, you would  
10 have had a positive hundred to offset the  
11 negative hundred to get to zero cash flow from  
12 operations, which is what the case would be.

13 If you had a non cash adjustment in  
14 there, you would have shown a source of cash  
15 from receivables. Or you would not have shown  
16 a source from source receivables, which would  
17 have resulted in a hundred dollars of cash from  
18 outflow operations, and that wouldn't have been  
19 the case.

20 Again, that's my knee jerk  
21 reaction. I think if you walk through the  
22 logic, I don't think your heading on that would  
23 be right, the more I think about it. If you  
24 actually had an adjustment for that, that  
25 actually could be the wrong way, doing that

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## 1 AFFIDAVIT

2 The State of Ohio, )

3 ) SS:

4 County of Cuyahoga )

5

6

7

8 Before me, a Notary Public in and for

9 said County and State, personally appeared

10 DANIEL CANCELMI, who acknowledged that he/she

11 did read his/her transcript in the

12 above-captioned matter, listed any necessary

13 corrections on the accompanying errata sheet,

14 and did sign the foregoing sworn statement and

15 that the same is his/her free act and deed.

16 In the TESTIMONY WHEREOF, I have hereunto

17 affixed my name and official seal at this

18 day of A.D 2003.

19

20

21

22 Notary Public

23

24

25 My Commission Expires:

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## 1 DEPOSITION ERRATA SHEET

2

3 RE: OFFICIAL COMMITTEE OF UNSECURED

4 CREDITORS, ETC. VS.

5 PRICEWATERHOUSECOOPERS, LLP

6 RRS File No.: 7472

7 Deponent: DANIEL CANCELMI

8 Deposition Date: FEBRUARY 6, 2003

9

10 To the Reporter:

11 I have read the entire transcript of my

12 Deposition taken in the captioned matter or the

13 same has been read to me. I request that the

14 following changes be entered upon the record

15 for the reasons indicated. I have signed my

16 name to the Errata Sheet and the appropriate

17 Certificate and authorize you to attach both to

18 the original transcript.

19

20

21

22

23

24

25



IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF  
UNSECURED CREDITORS OF  
ALLEGHENY HEALTH, EDUCATION &  
RESEARCH FOUNDATION,

Plaintiff,

Civil Action

No. 00-684

vs.

PRICewaterhouseCOOPERS, L.L.P.,

Defendant.

Continued videotaped deposition of  
DANIEL CANCELMI, called for examination under the  
statute, taken before me, Jaci R. Traver, RPR,  
CRR, and Notary Public in and for the State of  
Ohio, at the offices of Jones Day, 500 Grant  
Street, Pittsburgh, Pennsylvania, on Friday, the  
7th day of February 2003 at 9:00 a.m.

- - - - -

VOLUME 4

- - - - -

Daniel Cancelmi

Volume 4

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## 1 APPEARANCES:

2  
3 On behalf of the Plaintiff:4 Jones Day, by  
5 RICHARD WHITNEY, ESQ.  
6 North Point  
7 901 Lakeside Avenue  
8 Cleveland, Ohio 44114  
9 (216) 586-7256  
10

11 Jones Day, by

12 DAVID S. TORBORG, ESQ.  
13 51 Louisiana Avenue, N.W.  
14 Washington, D.C. 20001-2113  
15 (202) 879-5562  
16

17 On behalf of the Defendant:

18 Cravath, Swaine & Moore, by  
19 ANTONY L. RYAN, ESQ.  
20 AVRAM E. LUFT, ESQ.  
21 Worldwide Plaza  
22 825 Eighth Avenue  
23 New York, New York 10019-7475  
24 (212) 474-1296  
251 VIDEO TECHNICIAN: We are resuming  
2 with the deposition of Daniel Cancelmi on  
3 February 7th, 2003. The time is 9:06. You may  
4 proceed.

## 5 CONTINUED EXAMINATION OF DANIEL CANCELMI

6 BY MR. RYAN:

7 Q. Good morning, Mr. Cancelmi.

8 A. Good morning.

9 Q. When we broke yesterday, I think we  
10 were looking at your May 22nd, 1997 memo marked  
11 as Exhibit 154. Do you have a copy of that?

12 A. Yes.

13 Q. And this is a memo in which you  
14 summarize Graduate system restructuring  
15 reserves, right?

16 A. Yes.

17 Q. And the total amount of reserves is  
18 about \$47 and a half million?19 A. No. Actually, it's 47 and a half,  
20 plus another 60 on the next page.21 Q. And the 60 million on the next page  
22 were recorded as part of the purchase price  
23 allocation; is that right?24 A. They were recorded as intangible  
25 assets. And I try to distinguish between the

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## 1 APPEARANCES, Continued:

2  
3 On behalf of the Defendant:4 Manion McDonough & Lucas, P.C., by  
5 JOSEPH F. McDONOUGH, ESQ.  
6 USX Tower, Suite 1414  
7 600 Grant Street  
8 Pittsburgh, Pennsylvania 15219  
9 (412) 232-0206  
10

11 On behalf of the Witness:

12 Tycko Zavareei, LLP, by  
13 JONATHAN K. TYCKO, ESQ.  
14 1300 19th Street, N.W.  
15 Suite 400  
16 Washington, D.C. 20036  
17 (202) 973-0902  
18

## 19 ALSO PRESENT:

20 Jeffrey L. Close,  
21 PriceWaterhouseCoopers  
22 Justin Wiener, Video Technician  
23  
24  
25

1 two in this memo.

2 Q. Since you mentioned that, why don't  
3 I just show you what's previously been marked  
4 as Exhibit 35.5 Do you recognize Exhibit 35, Mr.  
6 Cancelmi?

7 A. Yes.

8 Q. This is a memo that you wrote to  
9 Mr. Morrison dated June 20th, 1997?

10 A. Yes.

11 Q. And does this memo summarize all  
12 the intangible assets on the Graduate entities?13 A. Yeah. This was an attempt to  
14 summarize the intangible assets that existed at  
15 that point in time.16 Q. All right. So the three reserves  
17 capitalized as an intangible asset shown on  
18 page 2 of your May 22nd memo are a subset of  
19 the larger list in the June 20th memo, right?

20 A. Yes. I believe. Yes.

21 Q. All right. And the third row on  
22 the June 20th memo is called net unrestricted  
23 deficit as of AHERF system entry date 5/1/97,  
24 right?

25 A. Yes.

2 (Pages 988 to 991)

Daniel Cancelmi

Volume 4

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Page 994

1 Q. That totals \$49,585,000?  
 2 A. Yes.  
 3 Q. Does that reflect the amount of  
 4 operating losses that the Graduate entities  
 5 incurred between the date of their entry into  
 6 SDN and the date of their entry into AHERF,  
 7 plus the restructuring reserves that were  
 8 recorded on the entities during that period?  
 9 A. That was their -- it was their  
 10 negative equity at the time they came into the  
 11 AHERF system, which would have included their  
 12 losses through time, plus those restructuring  
 13 costs.  
 14 Q. So ultimately, all the  
 15 restructuring reserves set forth on the  
 16 attachment to your May 22nd, 1997 memo were  
 17 capitalized as an intangible asset, the same as  
 18 the purchase price allocations were, right?  
 19 A. Yes.  
 20 Q. So focusing for the time being on  
 21 the May 22nd memo, there's a total there of  
 22 \$47,466,000 recorded as restructuring reserves  
 23 while the Graduate entities were in SDN, or  
 24 even before they entered SDN, right?  
 25 A. Yes.

1 (Thereupon, Exhibit 1114 was marked  
 2 for purposes of identification.)  
 3 - - - - -  
 4 Q. Do you see your handwriting on  
 5 parts of Exhibit 1114, Mr. Cancelmi?  
 6 A. Yes.  
 7 Q. Which portions are in your  
 8 handwriting?  
 9 A. It says, Graduate, and then there's  
 10 bullet points going down. And then  
 11 osteopathic, and then where it says Workers'  
 12 Comp. And then the dollar amounts.  
 13 Q. And the remaining handwriting in  
 14 the document is Mr. Adameczak's?  
 15 MR. TORBORG: Objection.  
 16 A. No.  
 17 Q. Do you know whose it is?  
 18 A. It's Steve Spargo's. Except for  
 19 that that one number at the top where it says  
 20 246-2335, I don't know whose that is.  
 21 Q. If you compared this list here in  
 22 your handwriting at the top for the Graduate  
 23 hospital on Exhibit 1114 with the attachment to  
 24 your May 22nd memo, the list of Graduate system  
 25 restructuring reserves, there's some items that

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Page 995

1 Q. And you've broken it down into  
 2 reserves acquired before the SDN acquisition  
 3 date and reserves recorded thereafter, right?  
 4 A. Yes.  
 5 Q. Let me ask you first, who recorded  
 6 the restructuring reserves before the SDN  
 7 acquisition?  
 8 A. Who recorded them?  
 9 Q. Was it AHERF or was it the Graduate  
 10 Health System?  
 11 A. Physically who recorded them? They  
 12 were recorded on the books of the Graduate  
 13 hospitals.  
 14 Q. Who directed them to be recorded?  
 15 A. Well, the Graduate people were  
 16 working with the AHERF people who were, I  
 17 guess, acting on behalf of SDN, and I guess  
 18 evaluating these issues.  
 19 Q. And were you a part of that  
 20 evaluation?  
 21 A. Yes.  
 22 Q. Let me mark, please, as Exhibit  
 23 1114 a one-page document with Bates number  
 24 DBR-AA 42522.  
 25 - - - - -

1 appear to correspond between the two lists; is  
 2 that right?  
 3 I'm looking, for instance, at the  
 4 first item, patient accounts greater than 180  
 5 days, \$3 million.  
 6 A. Right.  
 7 Q. And there's an NIH potential  
 8 payback of \$400,000, plus another \$470,000. Do  
 9 you see that?  
 10 A. I don't see the 470. I see the  
 11 400.  
 12 Q. Right. And then in your  
 13 handwritten version on 1114 it says, 471,000  
 14 already booked, and then the 470,000 is listed  
 15 on the other sheet.  
 16 A. They're different issues.  
 17 Q. I see, the ones --  
 18 A. 471 is different than the 470.  
 19 Q. Is the schedule on Exhibit 1114 a  
 20 rough draft that you sketched out of potential  
 21 restructuring reserves to record on the books  
 22 of the Graduate hospital before it turned into  
 23 SDN?  
 24 A. That's what it looks like. I don't  
 25 remember the time when this was put together.

3 (Pages 992 to 995)

Daniel Cancelmi

Volume 4

Page 1072

Page 1074

1 Q. But there are five Graduate  
2 hospitals, right?  
3 A. I guess.  
4 Q. There's AGH, right?  
5 A. Yes.  
6 Q. AHERF the parent corporation?  
7 A. Yes.  
8 Q. Other Pittsburgh-based entities?  
9 A. Yes.  
10 Q. The Forbes Hospitals had several  
11 different general ledgers, didn't they?  
12 A. Yes, they did.  
13 Q. And there's Allegheny Valley in  
14 addition?  
15 A. Yes.  
16 Q. A couple there, probably?  
17 A. Yes.  
18 Q. So overall, we're talking about  
19 maybe 20 different general ledger systems by  
20 the end of fiscal year 1997, right?  
21 A. It could have been -- there's -- I  
22 think there was more than that.  
23 Q. All right. More than 20 general  
24 ledgers and there are a couple hundred accounts  
25 in each, right?

1 made through a computer interface system, and  
2 then there would be others that would be made  
3 manually, right.  
4 A. Yes.  
5 Q. And overall, in any year for the  
6 AHERF system, we're talking about at least  
7 hundreds of thousands of entries against the  
8 general ledger system, right?  
9 A. It's a lot. I have no idea how  
10 much it is.  
11 Q. Millions, maybe?  
12 A. I have no idea.  
13 Q. And certainly when you were an  
14 auditor, you never reviewed millions of entries  
15 in your client's general ledger system, did  
16 you?  
17 A. No. You didn't have to review  
18 millions of journal entries. There was  
19 sometimes you looked for large entries, flip  
20 through journal entry books. I think there was  
21 audit program steps, you would do that for  
22 manual journal entries.  
23 Q. And you --  
24 A. But every single journal entry  
25 wouldn't have been examined.

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Page 1075

1 A. Uh-huh.  
2 Q. So overall we're talking about  
3 thousands of different accounts in the AHERF  
4 general ledger system?  
5 A. Yeah, if you add them up  
6 collectively.  
7 Q. And many of these accounts would  
8 have numerous transactions during the course of  
9 a given year, right?  
10 A. Yes.  
11 Q. Let's take, as an example, a  
12 contractual allowance account. An account like  
13 that would have many hundreds of transactions  
14 in a year, right?  
15 A. Yes, it could.  
16 Q. And there would be many hundreds of  
17 entries to that account right?  
18 A. It could. I mean generally  
19 speaking, I think you had, you know, you had a  
20 standardized computer system interface that  
21 went in each month, where the billing system  
22 interfaced into the general ledger system. And  
23 then you had manual adjustments that were made.  
24 Q. So there would be certain entries  
25 into the general ledger system that would be

1 Q. And you would expect your client to  
2 direct you to unusual journal entries, right?  
3 A. Yes and no. It depends, you know,  
4 if the issue came up.  
5 Q. It would be part of an open, candid  
6 and honest working relationship for the client  
7 to direct the auditors to unusual journal  
8 entries, wouldn't it?  
9 A. Yeah, and as far as, you know,  
10 certain issues, depending on what the issue  
11 relates to. You know, whether everyone  
12 remembers every single journal entry, I think  
13 as you mentioned, there's hundreds of thousands  
14 of journal entries, so to even begin to think  
15 that the client sits down with the auditor and  
16 goes through every single hundreds of thousands  
17 of journal entries, I mean that doesn't happen.  
18 Q. Looking at this page, we're still  
19 on the second page of Exhibit 321, I believe  
20 you testified that the reason you included this  
21 page in the packet was that the balance in  
22 general ledger account 1201905 for the Medicaid  
23 reserve declined between April 1997 and  
24 May 1997; is that right?  
25 A. I put this in there to demonstrate,

23 (Pages 1072 to 1075)

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1 you know, that, hey, this reserve had been  
 2 recorded in a separate account. And at that  
 3 time I thought we had discussed it, but what I  
 4 wanted to do was provide an example of  
 5 documentation that this item had been, you  
 6 know -- certainly hadn't been hidden.  
 7 It was in a separate general ledger  
 8 account. The activity had changed balance.  
 9 And that was the purpose of, you know, pulling  
 10 the data together.  
 11 Keep in mind, at this point I think  
 12 that Coopers & Lybrand, I think, Al Adamczak  
 13 told me had gone to the board and suggested  
 14 that they weren't aware of these transactions,  
 15 and that the entries had been sliced and diced.  
 16 And so what we were trying to do at  
 17 this point, I believe, is say, you know, that's  
 18 not the case. I mean look, I mean there's some  
 19 pretty, you know, open, you know,  
 20 documentation, separate accounts and stuff, you  
 21 know, it wasn't being hidden.  
 22 MR. RYAN: I move to strike that as  
 23 nonresponsive.  
 24 MR. TORBORG: Objection to the  
 25 motion.

1 right?  
 2 A. That could be one reason.  
 3 Q. That the money had been paid out,  
 4 right?  
 5 A. That could be one reason.  
 6 Q. Somebody might also reasonably  
 7 infer that there had been a change in the  
 8 estimate of what Medicaid reserve was needed on  
 9 the books of the Graduate hospital during the  
 10 month of May, 1997, right?  
 11 A. That could be one. There could be  
 12 hundreds of different reasons.  
 13 Q. Did you use this schedule in the  
 14 cover page of Exhibit 321 to explain the \$28  
 15 million reserve transfer to Mr. Hope and  
 16 Mr. Cepielik?  
 17 A. Yeah, we provided this to them as,  
 18 you know, here's some documentation that  
 19 suggests that, you know, these issues were  
 20 certainly out on the table. And here's, you  
 21 know, some of the correspondence, you know,  
 22 that you may want to take a look at to see for  
 23 yourself.  
 24 I'll be honest with you, and I  
 25 think I testified to this before, that, you

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1 Q. The balance in the Medicaid reserve  
 2 account as shown on this excerpt from the  
 3 Graduate Hospital trial balance for May 31st,  
 4 1997, declined by \$2 million from the prior  
 5 month, right?  
 6 A. Yes.  
 7 Q. And there could be many reasons why  
 8 that Medicaid reserve balance had declined over  
 9 the course of the month; is that also right?  
 10 MR. TORBORG: Objection.  
 11 A. There could be -- no, they declined  
 12 for one reason.  
 13 Q. You know it declined because you  
 14 transferred the \$2 million of reserves to  
 15 Graduate, but somebody looking at this page  
 16 from the Graduate hospital trial balance cannot  
 17 determine that, right?  
 18 A. No.  
 19 Q. When you say no, you mean you agree  
 20 that the person can't determine that from this  
 21 page, right?  
 22 A. That's correct.  
 23 Q. Somebody might reasonably infer  
 24 that AHERF had satisfied the obligation for  
 25 which the Medicaid reserve was established,

1 know, that we provided it to them. I don't  
 2 even really remember them spending too much  
 3 time or caring to receive it. It seemed like  
 4 they were pretty much at the point where they  
 5 had wrapped up their review.  
 6 Because I remember saying to them  
 7 that, well, have you had a chance to speak with  
 8 Chuck Morrison yet? And I think the response  
 9 was, who is Chuck Morrison? And just seemed  
 10 odd to me, since he was the chief financial  
 11 officer that, maybe they hadn't talked to Chuck  
 12 Morrison yet. But that's why I say, I thought  
 13 it was at the end.  
 14 MR. RYAN: I move to strike that as  
 15 nonresponsive.  
 16 Q. My question, Mr. Cancelmi, was very  
 17 simple. Did you provide this schedule to  
 18 Mr. Hope and Mr. Cepielik in 1998 to explain to  
 19 them the \$28 million reserve transfer?  
 20 A. Yes, and I'll go back to the answer  
 21 I just gave.  
 22 Q. And you didn't provide this summary  
 23 schedule or any other schedule like this to the  
 24 Coopers & Lybrand audit team during the fiscal  
 25 year 1997 audit, did you?

24 (Pages 1076 to 1079)



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1 to and including the CFO, Chuck Morrison, or  
2 Spargo. And even Dionisio, who was responsible  
3 for the billing department.

4 So we would prepare the financial  
5 statements oftentimes with the data that came  
6 out of the billing system. The people would  
7 start asking questions. A lot of times we  
8 don't -- I don't know, we don't know. I mean  
9 that's not our department. You need to talk  
10 to, you know, someone in the billing  
11 department.

12 Then those guys would go and talk  
13 to people in the billing department. And, you  
14 know, then it would start going back and forth.

15 Then there was an effort to try get  
16 people to -- like the people in the billing  
17 department to share data on a more timely basis  
18 with, you know, Morrison or Spargo or whomever,  
19 and get that, so that information could get to  
20 us.

21 And, you know, at first it was  
22 pretty rocky. And then, you know, over time,  
23 the sharing of information improved and there  
24 was more of a better dialogue or sharing of  
25 data between the departments.

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1 information.

2 And, you know, Greg Snow, he's  
3 above me. You know, he reports to Dionisio.  
4 You know, Spargo and Dionisio, you know, had  
5 two different departments. You know, but they  
6 both reported to, you know, McConnell. And,  
7 you know, a lot of times, I mean that was my  
8 sense that, you know, there was tension between  
9 the two groups.

10 And, you know, a lot of it was just  
11 because of what was going on. There was, you  
12 know, some of the problems that were within the  
13 billing department. And I think a lot of times  
14 they thought that, you know, we were pointing  
15 things out in a bad light and, you know, they  
16 were scrambling.

17 But the bottom line was, there was  
18 many times they had processed a lot of  
19 adjustments and hadn't necessarily advised, at  
20 least, Spargo or Morrison or McConnell.  
21 Whether or what was shared between the  
22 department from Dionisio on down, I don't know.  
23 I didn't work there.

24 I mean you could talk to a number  
25 of people up and down the patient accounting

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1 But you'd still have times where  
2 something would happen. We didn't know the  
3 answer to it. And they'd look to the patient  
4 accounting department and for the answer.

5 And to be quite frank, from their  
6 side, they thought a lot of times that, you  
7 know, hey, you guys, meaning general  
8 accounting, are making me look bad. And that  
9 wasn't the case at all. It's like, these are  
10 your numbers. I mean we just -- we don't know  
11 the answers to these questions, so they need to  
12 talk to you.

13 So I mean it was that type of  
14 information, or that type of interactions back  
15 and forth. And it got frustrating at times.

16 Q. Were there occasions when you or  
17 your colleagues in the general accounting  
18 department went to the Patient Financial  
19 Services Group and asked them for information,  
20 but didn't get the information that you  
21 requested?

22 A. There could have been. I don't  
23 know. Or there could have been a delay in  
24 getting the information. Keep in mind, you  
25 know, you have -- depends who is asking for the

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1 department, a lot of people would say the same  
2 thing.

3 Q. They would say that it was often  
4 difficult to get the information they needed  
5 out of PFSG?

6 A. Well, if they worked in PFSG, I  
7 don't know if they would say that. What they  
8 would be saying is there was lot of people who  
9 felt that the billing department wasn't  
10 functioning up to par.

11 Q. And the question I guess I meant to  
12 ask was: You and your colleagues in the  
13 general accounting group often had difficulty  
14 getting the information you needed from the  
15 PFSG, right?

16 A. Sometimes. Depends what the issue  
17 was.

18 Q. Let me mark, please, as the next  
19 exhibit a one-page document with Bates numbers  
20 DC2942, page 35. This will be Exhibit 1122.

21 - - - - -

22 (Thereupon, Exhibit 1122 was marked  
23 for purposes of identification.)

24 - - - - -

25 Q. Do you recognize this schedule,

Page 1144

1 Mr. Cancelmi?  
 2 A. Yes.  
 3 Q. What is it?  
 4 A. It's a summary of adjustments made  
 5 in Delaware Valley for the '96.  
 6 Q. These are adjustments that were  
 7 recorded -- strike that.  
 8 These are adjustments that were  
 9 recorded at year-end fiscal year 1996?  
 10 A. Yes.  
 11 Q. Is this your handwriting on this  
 12 schedule?  
 13 A. Yes.  
 14 Q. And the adjustments that were made  
 15 increased net income for the DVOG, right?  
 16 A. Yes.  
 17 Q. Is that your handwriting also at  
 18 the top of the document, in the circle?  
 19 A. Yes.  
 20 Q. Does that say, discussed with Steve  
 21 on July 24th, 1996?  
 22 A. Yes.  
 23 Q. Steve is Steve Spargo?  
 24 A. Yes.  
 25 Q. And is it the case that you and

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1 operations came back to Pittsburgh, the  
 2 financial position of that organization, you  
 3 know, was looked at. And based on their  
 4 operating results, it was determined that there  
 5 could be an adjustment made.  
 6 And I can't remember if this  
 7 happened in -- could have been the end of --  
 8 maybe it was part of during '96 that Coopers &  
 9 Lybrand raised this issue that we had this  
 10 Health Partners investment that wasn't recorded  
 11 on the financial statements. I believe Mark  
 12 Kirstein was involved in that.  
 13 Q. And is what happened that at the  
 14 end of the fiscal year 1995 audit, Coopers &  
 15 Lybrand raised the issue with AHERF that there  
 16 was this investment in Health Partners that was  
 17 not recorded on AHERF's books?  
 18 A. I can't remember if it was '95 or  
 19 '96.  
 20 Q. But at some point in time, you do  
 21 recall that Coopers & Lybrand caught this issue  
 22 and brought it to the attention of AHERF,  
 23 right?  
 24 A. I don't know if caught is the right  
 25 word. You know, Allegheny knew about this

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1 Mr. Spargo discussed these year-end adjustments  
 2 at the DVOG?  
 3 A. Yes.  
 4 Q. Mr. Spargo approved of the  
 5 adjustments?  
 6 A. Yes.  
 7 Q. Now, do you see the first  
 8 adjustment is listed as Health Partners  
 9 unrecorded equity?  
 10 A. Yes.  
 11 Q. Do you recall what the issue was  
 12 there?  
 13 A. Yeah. Allegheny had an investment  
 14 in this -- it was Medical Assistants HMO plan  
 15 out in the Philadelphia area. It had been out  
 16 there for a number of years.  
 17 And sometimes the operations of  
 18 that organization were profitable; other times  
 19 they were not. And I guess at the time the  
 20 Philadelphia operations were transferred, the  
 21 accounting operations were transferred to  
 22 Pittsburgh, I guess there may have been some  
 23 balance or maybe it was small balance related  
 24 to that investment.  
 25 But at some point, after the

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1 investment. You know, Chuck Morrison provided  
 2 more background on it in terms of in its  
 3 beginning stages, what was recorded on the  
 4 financial statements and what was not.  
 5 But at some point, you know, the  
 6 issue was discussed with Coopers & Lybrand  
 7 about this investment; hey, look at the most  
 8 recent financial statements. You know, it  
 9 would suggest that you could record investment  
 10 balance there.  
 11 Q. AHERF accounted for its investment  
 12 in Health Partners using what's known as the  
 13 equity method, right?  
 14 A. Yeah, I guess you could look at it  
 15 like that. I think that somebody, up until the  
 16 time it was recorded, I don't think anything  
 17 was being recorded on a monthly basis.  
 18 And then that number there, I  
 19 think, was an estimate of what their  
 20 proportionate share of Health Partners' equity  
 21 was at that time.  
 22 Q. So you took the Health Partners'  
 23 equity and divided it by the proportion of  
 24 Health Partners corresponding to AHERF's  
 25 investment?

41 (Pages 1144 to 1147)

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1 examination at this time. I'm hopeful that we  
2 can continue an off-the-record discussion and  
3 hopefully resolve it that way.

4 VIDEO TECHNICIAN: Being there are  
5 no further questions at this time, we are going  
6 off the record. The time is 5:27.

7  
8 (Deposition adjourned.)  
9 -----  
10  
11  
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13  
14  
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19  
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Page 1250

1 I do further certify that I am not  
2 a relative, counsel or attorney for either  
3 party, or otherwise interested in the event of  
4 this action.

5 IN WITNESS WHEREOF, I have hereunto  
6 set my hand and affixed my seal of office at  
7 Cleveland, Ohio, on this day of  
8 , 2003.  
9  
10  
11  
12  
13

14 Jaci R. Traver, Notary Public  
15 within and for the State of Ohio  
16

17 My commission expires July 15, 2003.  
18  
19  
20  
21  
22  
23  
24  
25

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1 CERTIFICATE

2 The State of Ohio, )

3 SS:

4 County of Cuyahoga. )  
5

6 I, Jaci R. Traver, RPR, CRR and  
7 Notary Public, duly commissioned and qualified,  
8 do hereby certify that the within named  
9 witness, DANIEL CANCELMI, was by me first duly  
10 sworn to testify the truth, the whole truth and  
11 nothing but the truth in the cause aforesaid;  
12 that the testimony then given by the  
13 above-referenced witness was by me reduced to  
14 stenotypy in the presence of said witness;  
15 afterwards transcribed, and that the foregoing  
16 is a true and correct transcription of the  
17 testimony so given by the above-referenced  
18 witness.

19 I do further certify that this  
20 deposition was taken at the time and place in  
21 the foregoing caption specified and was  
22 completed without adjournment.  
23  
24  
25

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1 INDEX

2 CONTINUED EXAMINATION OF DANIEL CANCELMI  
3 BY MR. RYAN..... 990:5  
4

5 Exhibit 1114 was marked..... 994:1  
6 Exhibit 1115 was marked..... 1000:1  
7 Exhibit 1116 was marked..... 1003:21  
8 Exhibit 1117 was marked..... 1095:24  
9 Exhibit 1118 was marked..... 1097:3  
10 Exhibit 1119 was marked..... 1101:15  
11 Exhibit 1120 was marked..... 1107:9  
12 Exhibit 1121 was marked..... 1109:1  
13 Exhibit 1122 was marked..... 1143:22  
14 Exhibit 1123 was marked..... 1168:10  
15 Exhibit 1124 was marked..... 1179:1  
16 Exhibit 1125 was marked..... 1211:12  
17 Exhibit 1126 was marked..... 1218:19  
18 Exhibit 1127 was marked..... 1219:23  
19 Exhibit 1128 was marked..... 1222:8  
20 Exhibit 1129 was marked..... 1240:15  
21 Exhibit 1130 was marked..... 1241:19  
22

23 AFTERNOON SESSION..... 1111:1  
24

25 objection..... 994:15

67 (Pages 1248 to 1251)

1 IN THE UNITED STATES DISTRICT COURT  
2 FOR THE DISTRICT OF PENNSYLVANIA  
3

4 THE OFFICIAL COMMITTEE OF

5 UNSECURED CREDITORS OF

6 ALLEGHENY HEALTH, EDUCATION &

7 RESEARCH FOUNDATION,

Civil Action

8 Plaintiff,

No. 00-684

9 vs.

10 PRICEWATERHOUSECOOPERS, L.L.P.,

11 Defendant.  
12

13 Continued videotaped deposition of

14 DANIEL CANCELMI, called for examination under the

15 statute, taken before me, Michael E. Miller, CSR,

16 RPR, CRR in and for the State of Texas, at the

17 offices of Gibson, Dunn & Crutcher, 2100 McKinney

18 Avenue, Suite 1100, Dallas, Texas, on Monday, the

19 24th day of November, 2003 at 9:08 a.m.  
20

21 - - - - -

22 VOLUME 5

23 - - - - -  
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<p style="text-align: right;">Page 1349</p> <p>1 accounting rules were out there for investments.  2 Q. (BY MR. RYAN) Fiscal year 1996 is  3 when AHERF adopted FAS 116 and 117 and 124?  4 A. Yes.  5 Q. I take it, though, that you don't have 11:35AM  6 any specific knowledge of anyone from AHERF  7 telling Coopers &amp; Lybrand about this issue that  8 apparently went back and forth with Chuck  9 Morrison about whether or not to record these  10 realized gains? 11:36AM  11 MR. TORBORG: Object to form.  12 A. We very well may have.  13 Q. (BY MR. RYAN) Do you actually recall  14 that happening?  15 A. I don't remember specifically, no. 11:36AM  16 Q. Do you have any recollection of  17 talking to Coopers &amp; Lybrand about this issue,  18 this disagreement that went back and forth with  19 Mr. Morrison?  20 MR. TORBORG: Object to form. 11:36AM  21 A. Again, I wouldn't -- I don't know if  22 I'd call it a disagreement; but no, I don't  23 remember a specific conversation.  24 MR. RYAN: Let me mark, please, as  25 Exhibit 2278 a document with Bates numbers 11:36AM</p>	<p style="text-align: right;">Page 1351</p> <p>1 A. Oh.  2 Q. -- for the allowance for doubtful  3 accounts.  4 A. Yes, I see that.  5 Q. Do you know why that is? 11:39AM  6 A. I don't remember offhand.  7 MR. RYAN: Let me show you a  8 document which may assist with that. Let me  9 mark as Exhibit 2279 a document with Bates  10 numbers DC2777, pages 1 to 13. 11:39AM  11 (Exhibit 2279 marked.)  12 Q. (BY MR. RYAN) All right. Do you see  13 Exhibit 2279 is another version of the  14 November 30th, 1996 financial statements for the  15 DVOG, but this time with a print date of 11:40AM  16 December 24th, 1996, compared to the print date  17 in Exhibit 2278 of January 19th, 1997?  18 A. Yes.  19 Q. Somebody was working on Christmas Eve,  20 it seems. 11:40AM  21 And is that your handwriting in the  22 upper right-hand corner of Exhibit 2279?  23 A. Yes.  24 Q. It's a note from you to Keith?  25 A. Yes. 11:40AM</p>
<p style="text-align: right;">Page 1350</p> <p>1 DC1241, pages 1 to 14.  2 (Exhibit 2278 marked.)  3 Q. (BY MR. RYAN) Do you recognize  4 Exhibit 2278, Mr. Cancelmi?  5 A. Looks like the financial statements 11:37AM  6 for the Delaware Valley for November '96.  7 Q. So these are financial statements for  8 a period two months later than those that we  9 looked at in Exhibit 2275?  10 A. Yes. 11:37AM  11 Q. If you could turn, please, to the  12 balance sheet, which is on Bates page 4. And if  13 you wouldn't mind comparing that to the balance  14 sheet on Bates page 4 of Exhibit 2275, the  15 September 30th, 1996 financial statements. 11:37AM  16 A. 2275?  17 Q. Yes, sir.  18 A. Okay.  19 Q. And do you see that there's a change  20 in the method of presentation of patient accounts 11:38AM  21 receivable from Exhibit 2275 to Exhibit 2278?  22 A. Between November and September?  23 Q. Yes. Specifically, I'm referring to  24 the fact that there's no longer a disclosure in  25 the margin of the balance sheet -- 11:39AM</p>	<p style="text-align: right;">Page 1352</p> <p>1 Q. Who was Keith?  2 A. Keith Reabe.  3 Q. And what role did Keith Reabe play in  4 generating AHERF's internal monthly financial  5 statements? 11:40AM  6 A. He prepared the computer stuff,  7 whether it was Lotus or Excel -- I guess it was  8 Lotus at that point.  9 Q. So if you had changes to how you  10 wanted to set up a presentation of the internal 11:40AM  11 monthly financial statements, I take it you'd  12 talk to Keith Reabe about it?  13 A. Yes.  14 Q. All right. Could you turn, please, to  15 the balance sheet in Exhibit 2279, which is on 11:41AM  16 Bates page 3. And is that -- does that look like  17 your handwriting where you have crossed out a  18 disclosure in the margin of the allowance for  19 doubtful accounts?  20 A. Yes. 11:41AM  21 Q. And did you write in the margin "Hide  22 this"?  23 A. Yes.  24 Q. Why did you want to hide the  25 disclosure of the allowance for doubtful 11:41AM</p>



<p style="text-align: right;">Page 1353</p> <p>1 accounts?</p> <p>2 A. Well, the term "hide" within the</p> <p>3 computer system, that just means not to display</p> <p>4 it.</p> <p>5 Q. Why did you not want to display it? 11:41AM</p> <p>6 A. Offhand, I don't remember. I'm sure</p> <p>7 someone probably didn't want to have the</p> <p>8 disclosure for the allowance for those time</p> <p>9 periods.</p> <p>10 Q. Do you know who it was who didn't want 11:42AM</p> <p>11 to have that disclosure?</p> <p>12 A. Offhand, no.</p> <p>13 Q. Who was it that you wanted to hide the</p> <p>14 disclosure from?</p> <p>15 A. Well, this was around the time I -- 11:42AM</p> <p>16 MR. TORBORG: Object to form,</p> <p>17 foundation.</p> <p>18 A. -- I didn't want to hide it. This was</p> <p>19 around the time that the various reserves were</p> <p>20 being utilized to write off accounts in the 11:42AM</p> <p>21 Delaware Valley, and when they were going through</p> <p>22 and writing those accounts off, they would get</p> <p>23 applied against the bad debt reserve.</p> <p>24 So what you had, when you look at</p> <p>25 that, is the fact that you have accounts that 11:42AM</p>	<p style="text-align: right;">Page 1355</p> <p>1 allowance back up, right?</p> <p>2 A. Well, there was bad debt expense being</p> <p>3 recorded.</p> <p>4 Q. Right. But it was being recorded to</p> <p>5 budget, right? 11:43AM</p> <p>6 A. At that time, it -- it probably was at</p> <p>7 that point.</p> <p>8 Q. It wasn't -- apparently, as we can see</p> <p>9 here in Exhibit 2279, the bad debt expense wasn't</p> <p>10 being taken in an amount large enough to build 11:44AM</p> <p>11 the allowance back up to anything like the</p> <p>12 previous levels, right?</p> <p>13 A. That's right. And the previous levels</p> <p>14 were probably -- those bad debt reserves were</p> <p>15 probably higher than maybe someone would argue 11:44AM</p> <p>16 than normal because there was accounts out there</p> <p>17 that hadn't been written off yet.</p> <p>18 Because if you look at the November</p> <p>19 receivables compared to the June receivables,</p> <p>20 they're up, but it's not significant. So even 11:44AM</p> <p>21 though there was -- you look at the allowance,</p> <p>22 the allowance went down by 30 million, you don't</p> <p>23 see the same corresponding change in the</p> <p>24 receivables. And that -- and the reason for that</p> <p>25 big switch in the allowance account was because 11:44AM</p>
<p style="text-align: right;">Page 1354</p> <p>1 are -- you have the gross account sitting in</p> <p>2 receivables, you have the accounts -- before they</p> <p>3 get written off, you have the reserve and the bad</p> <p>4 debt reserve, and then when you write them off,</p> <p>5 you take the gross account off and you apply it 11:42AM</p> <p>6 against the bad debt reserve; and just due to the</p> <p>7 timing of when accounts are being written off,</p> <p>8 you can have a distortion of the bad debt</p> <p>9 reserve, which was happening there because there</p> <p>10 was accounts being taken off and applied against 11:43AM</p> <p>11 the bad debt reserve.</p> <p>12 Q. So here in the portion that's being</p> <p>13 crossed out, I think I can make it out. It looks</p> <p>14 like it was a bad debt allowance of 20,647,000 at</p> <p>15 November 30th compared to \$50,625,000 at 11:43AM</p> <p>16 June 30th, right?</p> <p>17 A. Yes.</p> <p>18 Q. And that decrease was due to the</p> <p>19 write-off of aged accounts that was taking place</p> <p>20 in the Delaware Valley during fiscal year 1997? 11:43AM</p> <p>21 A. Yes.</p> <p>22 Q. And by this point in time, as of</p> <p>23 November 30th, 1996, there hadn't been an</p> <p>24 additional bad debt expense taken at the DVOG</p> <p>25 hospitals in order to build the bad debt 11:43AM</p>	<p style="text-align: right;">Page 1356</p> <p>1 they were -- started writing off older accounts</p> <p>2 against the bad debt reserve.</p> <p>3 Q. And this decrease in the bad debt</p> <p>4 allowance of the DVOG hospitals due to the</p> <p>5 write-offs of older accounts, combined with the 11:45AM</p> <p>6 fact that bad debt expense was being recorded at</p> <p>7 budgeted levels, is what resulted in the bad debt</p> <p>8 reserve shortfall that was growing during fiscal</p> <p>9 year 1997, right?</p> <p>10 A. Yes. 11:45AM</p> <p>11 Q. And, in effect, what we see here in a</p> <p>12 disclosure of the allowance for doubtful accounts</p> <p>13 going down from 50 million plus at June 30th to</p> <p>14 20 million plus at November 30th is a reflection</p> <p>15 of that same bad debt reserve shortfall, isn't 11:45AM</p> <p>16 it?</p> <p>17 A. It's a reflection that there was</p> <p>18 accounts getting written off against the bad debt</p> <p>19 allowance.</p> <p>20 Q. And do you recall that AHERF wanted -- 11:45AM</p> <p>21 that AHERF management wanted to hide that</p> <p>22 information?</p> <p>23 MR. TORBORG: Object to form and</p> <p>24 foundation.</p> <p>25 A. No, I -- I don't know if I'd 11:45AM</p>

<p style="text-align: right;">Page 1381</p> <p>1 MR. TORBORG: Object to 2 foundation -- 3 A. Not that I remember. 4 MR. TORBORG: -- and to form. 5 Q. (BY MR. RYAN) And is it the case that 12:18PM 6 in -- that as of September 24th, 1996, even after 7 you'd written this memo which in effect 8 calculated what the implications for the bad debt 9 allowance would be if management decided to write 10 off \$80 million in accounts receivable, that that 12:19PM 11 didn't lead you to believe that there should be a 12 prior period adjustment to the 1996 financial 13 statements? 14 MR. TORBORG: Object to form and 15 foundation. 12:19PM 16 A. Yeah, I don't remember the issue 17 arising regarding because these accounts are 18 being written off that there should be a prior 19 period adjustment. It may have, but I'll be 20 honest, I don't remember that. 12:19PM 21 Q. (BY MR. RYAN) That's not something 22 that you considered at the time? 23 A. I don't remember that. 24 Q. And that would be because you had an 25 understanding at the time that the bad debt 12:19PM</p>	<p style="text-align: right;">Page 1383</p> <p>1 Q. One meeting of the audit committee? 2 A. Audit committee. 3 Q. While you were at AHERF, though, you 4 did not attend meetings of the audit committee? 5 A. No. 12:20PM 6 Q. But you were aware, I take it, that 7 the audit committee would meet every year, 8 usually in October, to review and approve the 9 annual audited financial statements for AHERF, 10 right? 12:21PM 11 A. Yes, some -- generally around that 12 time frame. 13 Q. Do you remember any discussion with 14 anyone in late September or early October 1996 15 about a fact that there was this concept that had 12:21PM 16 been proposed of writing off \$80 million in older 17 patient accounts receivable and the 1996 18 statements hadn't yet gone to the audit committee 19 of the board for its approval? 20 A. Offhand, I don't. 12:21PM 21 Q. Did you ever consider taking any 22 action to bring to the attention of the audit 23 committee of the board of trustees the fact that 24 AHERF was considering writing off \$80 million in 25 accounts? 12:22PM</p>
<p style="text-align: right;">Page 1382</p> <p>1 allowance is an estimate and a change in facts or 2 circumstances after the balance sheet date 3 doesn't mean you have to go back and correct an 4 error and make a prior period adjustment, right? 5 MR. TORBORG: Object to form. 12:20PM 6 A. Yeah, depending on the fact pattern, 7 that can be true. Depending on a different fact 8 pattern, that cannot be true. So it really 9 depends. 10 Q. (BY MR. RYAN) Now, you didn't 12:20PM 11 attend -- 12 MR. TYCKO: Hold on. 13 MR. RYAN: Sorry. 14 (Conference out of the hearing of 15 the reporter.) 05:07PM 16 MR. TYCKO: Are you coming to a 17 breaking point? 18 MR. RYAN: I am. I'll stop in just 19 one minute. 20 MR. TYCKO: Okay. Fine. 12:20PM 21 Q. (BY MR. RYAN) You, I believe, didn't 22 ever attend meetings of the board of trustees of 23 AHERF, right? 24 A. Not when I was at AHERF. I think I 25 went to one meeting when I was at Coopers. 12:20PM</p>	<p style="text-align: right;">Page 1384</p> <p>1 A. Me? 2 Q. Yes. 3 A. They wouldn't know me if I hit them in 4 the head with a 2x4, so not necessarily. I just 5 didn't have interaction with them. 12:22PM 6 Q. Did you ever suggest to any of your 7 colleagues at AHERF who did attend these meetings 8 that they might want to bring that to the 9 attention of the audit committee? 10 A. I don't remember that being an issue. 12:22PM 11 I -- like I said, I don't remember there being an 12 issue that, oh, you know, it's a subsequent event 13 concern. It may have come up, but I'll be 14 honest, it doesn't stand out. You know, I think 15 my recollection was that, you know, there were 12:22PM 16 audit adjustments made at June '96 for the -- you 17 know, for the financial statements as of that 18 point in time, you know, the 17-1/2 and whatever 19 other adjustments were out there, and that was 20 the needed adjustments at that point in time. 12:22PM 21 Q. You knew, I take it, that Bill 22 Buettner from Coopers &amp; Lybrand attended meetings 23 of the audit committee? 24 A. Yes. 25 Q. Did you consider at all between the 12:23PM</p>